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# rapid change calls for decisive action

Ontario Securities Commission  
1999 Annual Review





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## New Structure Reflects Markets

Last year saw the re-structuring of the Ontario Securities Commission to reflect the changing face of our capital markets, and the changing needs of our constituents. Seven core branches – Enforcement, Corporate Finance, Capital Markets, Corporate Relations, Corporate Services, Office of the Chief Accountant, and Office of the General Counsel – are now more integrally linked, to best protect investors and support fair and efficient capital markets.

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## our vision

To be recognized as a regulator that establishes standards and aggressively enforces clear and unambiguous rules to protect investors, while at the same time ensuring efficient capital markets for compliant users.

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## our mandate

To protect investors from unfair, improper or fraudulent practices and to foster fair and efficient capital markets in Ontario and confidence in their integrity.

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## our strategy

To be efficient and proactive in carrying out our mandate...  
to be intelligently aggressive in applying the rules of the marketplace... to be innovative in applying our regulatory powers to a rapidly changing marketplace.

Capital Markets Branch	<ul style="list-style-type: none"> <li>• is responsible for the regulation of registrants, investment products, markets and clearing and settlement systems. The Capital Markets Branch encompasses the Market Regulation, Compliance, Registration and Investment Funds groups.</li> </ul>
Corporate Finance Branch	<ul style="list-style-type: none"> <li>• is responsible for the regulation of public companies; offerings and financings; continuous disclosure filings; take over bid and merger and acquisition transactions and administration and document management.</li> </ul>
Enforcement Branch	<ul style="list-style-type: none"> <li>• protects investors and fosters market integrity through firm, fair and effective enforcement of Ontario securities laws.</li> </ul>
Corporate Relations Branch	<ul style="list-style-type: none"> <li>• supports and advances the OSC's communication with its stakeholders.</li> </ul>
Corporate Services Branch	<ul style="list-style-type: none"> <li>• works in partnership with Commission programs to provide innovative, value-added, and effective corporate services.</li> </ul>
Office of the General Counsel	<ul style="list-style-type: none"> <li>• provides leadership on legal and policy issues. Participates in policy development and provides support on operational projects.</li> </ul>
Office of the Chief Accountant	<ul style="list-style-type: none"> <li>• provides leadership on accounting and policy issues to OSC staff and reporting issuers and identifies emerging policy problems. Participates in policy development and provides support on operational projects.</li> </ul>
Goals	<ul style="list-style-type: none"> <li>• Redefine Approaches to the Financial Regulatory Framework</li> <li>• Strengthen the Compliance - Enforcement Continuum</li> <li>• Develop and Implement Integrated Disclosure System</li> <li>• Play an Active and Leading Role in Readyng the Canadian Capital Markets for the Year 2000 Issue</li> <li>• Improve Inquiry and Complaint Handling Process</li> <li>• Communicate Proactively to Enhance Investor Protection</li> <li>• Successfully Complete the Transition from Government to Business Orientation</li> <li>• Establish the OSC as a Destination Employer</li> </ul>

## Our Commission Members

The twelve members of the Ontario Securities Commission comprise the governing body of the Commission. The 9 part-time members, in addition to the full-time Chair and two full-time Vice-Chairs, are an exceptional resource bringing a wealth of experience to the diverse roles which the Commission must play.

The Commission formulates policy, makes rules, and serves as an administrative, or quasi-judicial, tribunal. The Commission also makes recommendations to the Minister of Finance for changes in legislation. The Members now also serve, as a result of the OSC's status as a self-funded Crown corporation, as members of the Commission's Board of Directors, overseeing the operational and financial affairs of the corporation.

Glorianne Stromberg was appointed a Commissioner in 1991 and resigned in December, 1998.

David A. Brown, Q.C.	Chair of the Ontario Securities Commission since April 15, 1998.
John A. Geller, Q.C.	appointed Vice Chair in November 1993. From November 1996 to April 1998, he served as Acting Chair.
Hon. Howard I. Wetston, Q.C	appointed Vice Chair in January of 1999.
Morley P. Carscallen, F.C.A.	Vice Chair from July, 1996 to November, 1998 having served as a Commission member since November 1992. He is currently a Commission member.
Kerry D. Adams, C.A.	appointed September, 1996.
Stephen N. Adams, Q.C.	appointed December, 1996.
Derek Brown	appointed October, 1997.
J.F. (Jake) Howard, Q.C.	appointed November, 1996.
Robert Korthals	appointed March, 1995.
Helen M. Meyer	appointed April, 1994.
R. Stephen Paddon, Q.C.	appointed January, 1998.
G. Patrick H. Vernon, Q.C.	appointed November, 1995.

The Ontario Securities Commission is the regulatory body responsible for overseeing the securities industry in Ontario. It administers the *Securities Act* and the *Commodity Futures Act* as well as certain provisions of the *Ontario Business Corporations Act*.

The following is a summary of Commission objectives and actions taken by the Commission to meet these objectives.

<i>1998/99 Objectives</i>	<i>Actions</i>
Complete the transition from Government to Business Orientation	Established the infrastructure to support the Ontario Securities Commission and introduced operating policies and principles for operation. Made substantial progress toward a 50% increase in staff resources to carry out the OSC mandate.
Investing in Service Delivery	<ul style="list-style-type: none"><li>• Introduced new Corporate Finance and Capital Markets Divisions.</li><li>• Introduced a Market Regulation Team to supervise, monitor and encourage the development of the securities, commodities and derivative market and promote confidence in these various markets in Ontario and Canada.</li><li>• Established an Investment Funds Team to bring focus to this sector through the review of investment funds filings, the development of investment fund regulatory policy and monitoring ongoing compliance with regulatory requirements.</li><li>• Introduced a Mergers and Acquisitions/Take Over Bids Team that is responsible for reviewing M&amp;A transactions and refining policy in the area.</li><li>• Redefined the mandate of the General Counsel's Office to provide advice and direction on a broad range of operational, transactional and policy projects to the Chair, the Commissioners, the Executive Director and the staff.</li><li>• Established a Project Office that supports Commission policy and project management with planning, tracking and resource requirements.</li></ul>
Review Approaches to the Financial Regulatory Framework	Collaborated with the Canadian Securities Administrators (CSA), the Ontario Superintendent of Financial Institutions, Provincial Insurance and Pension Regulators to initiate review of regulation of financial services.

<i>1998/99 Objectives</i>	<i>Actions</i>
Harmonization of Canadian Regulatory Requirements	Negotiated a Memorandum of Understanding among Canadian Securities Administrators formalizing the Mutual Reliance Review System. The system provides for "One Stop Shopping" for certain filings.
Develop a Modified Approach to Revenues	Initiated with other CSA regulators a process which will modify our approach to revenues. The goal is to reduce revenues to the level of expenditures, simplify fee structures and provide a more stable and equitable revenue base.
Raise Awareness and Provide Guidance on the Implications of Y2K	Initiated and monitored testing for securities and mutual funds industries. Initiated industry-wide contingency planning for the Y2K problem. Designed and implemented a communications plan to keep market participants and investors aware of progress on Y2K initiatives.
Focus on Implementing an Integrated Disclosure Approach	Established a Continuous Disclosure Team. The new group will focus on the continued movement towards the implementation of an integrated disclosure system which is consistent with the market reality of an expanding secondary market for securities and that more and more investors are making investment decisions based on an issuer's continuous disclosure record.
Increase Emphasis on Integration of Compliance and Enforcement Activities	Strengthened the Compliance and Enforcement continuum with respect to both issuers and registrants. Staffing in these areas has increased by 30%. Investigation and enforcement processes have been streamlined and shortened. Backlogs and referral times have been reduced substantially.
Reinforce Priority for Mutual Fund Regulatory Reform	Developed aggressive policy agenda with new Investment Funds Team. Mutual Funds Sales Practice rule was developed and other rules proposed to establish minimum standards for product distribution and disclosure. Mutual Fund Dealers Association was established and funded.

***1998/99 Objectives******Actions***

Focus on Importance of Alternative Trading Systems and Stock Exchange Reform	Developed guidelines for permitting operations of Alternative Trading Systems. Monitored proposed Stock Exchange reforms including TSE demutualization, exchange alliances and merger proposal.
Propose Proficiency Standards for Financial Planning and Similar Advice	Proposed, with the CSA, to develop new proficiency requirements in cooperation with the Financial Services Commission of Ontario and coordinated with the national insurance regulators. An industry group was organized to obtain consensus on standards of proficiency exams applicable across the financial services sector.
Strengthen Profile of OSC on International Stage	Worked extensively with the Technical Committee of International Organization of Securities Commissions (IOSCO), included were important roles on each of its five working parties and on the joint forum with other international financial regulators.
Improve Inquiry and Complaint Handling Process	Introduced a new structure for inquiry and complaint handling process. Service-oriented approach to handling inquiries is in place, supported by defined performance measures.
Upgrade and Modernize Reporting Requirements for Mining Companies	Co-sponsored with The Toronto Stock Exchange the Mining Standards Task Force which issued its Final Report in February, 1999. Proposed new National Instrument for comment.
Continue Reformulating of Rules	Proposed a number of reformulated rules in conjunction with the CSA. Key among them were the early warning rule, the underwriting conflict rule and a revision of Rule 9.1.
Increase Activity in the Area of Investor Education and Stakeholder Communication	Distributed a broad range of information through the first Investor Education Week, town hall meetings, investor education kits and other materials. Inaugurated <a href="http://www.osc.gov.on.ca">www.osc.gov.on.ca</a> .

This calendar represents highlights of completed enforcement actions for the fiscal year 1998/99.

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- June 11, 1998      *Frank Mersch* agreed not to apply for registration for a period of six months, and the exemptions available under the *Securities Act* were removed from *Peter Cunti* for two years as a result of their deliberately misleading staff of the Commission in the course of an investigation.
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- July 3, 1998      In *Gaudet, Chesnutt, Cohen and Osler Inc.* the individual defendants received four-year jail sentences arising out of their conduct as principal shareholders and senior officers of the now defunct brokerage firm. The company was fined over \$2.6 million.
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- July 23, 1998      The Commission issued an investor alert regarding *Kipling Investments Ltd.*, purportedly operating out of Toronto and soliciting investors around the world.
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- September 23, 1998      The Commission ordered that *Koman Info-Link Inc.*, *Koman Investment Inc.*, *Koman Investment Inc. (B.V.I.)*, *Simon Ko*, *John Ping Sum Lam* and *Jose Castenda* cease trading in securities as a result of their conduct relating to what purported to be a foreign currency trading operation.
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- October 14, 1998      Orders were made against *Robert Thomislav Adzija*, *Larry Allen Ayres*, *David Arthur Bending*, *Marlene Berry*, *Douglas Cross*, *Allan Joseph Dorsey*, *Allan Eizenga*, *Guy Fangeat*, *Richard Jules Fangeat*, *Michael Hresey*, *George Edward Holmes*, *Todd Michael Johnston*, *Michael Thomas*, *Peter Kennelly*, *John Douglas Kirby*, *Ernest Kiss*, *Arthur Krick*, *Frank Alan Latam*, *Brian Lawrence*, *Luke John McGee*, *Ron Masschaele*, *John Newman*, *Randall Novak*, *Normand Riopelle*, *Robert Louis Rizzuto* and *Michael Vaughan* as a result of their involvement in the sale of securities of *The Saxton Trading Corp.*, *The Saxton Export Corp.*, and various other "Saxton" companies.
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- December 3, 1998      In *Richard John Smith* and *Synlan Securities Corporation* the respondents' registration was terminated, and their ability to trade in securities was terminated permanently, as a result of Smith's criminal record and his failure to disclose that record to the Commission.

December 15, 1998

In *Beltco Holdings Inc. et al.*, Glen Erikson, Christine Erikson, Kai Hoesslin and Harcourt Wilshire had their exemptions removed for life, subject to certain exceptions, as a result of their involvement in a scheme that was manipulative, deceptive and abusive of the capital markets. Peter Mitchell was reprimanded for his involvement. Glen Erikson and Christine Erikson have appealed the Commission's decision to the Divisional Court.

January 28, 1999

A cease trading order against *Tactman Investments (Canada) Inc.* and *Tanrich Investment Consultant (Overseas) Ltd.* was made permanent.

February 18, 1999

*Asbestos:* On February 18, 1999, the Court of Appeal for Ontario overturned a Divisional Court ruling, and upheld the Commission's decision in the *Societe Nationale de l'Amiante* matter (commonly known as "Asbestos Corporation"). In that case, the Commission dismissed the application of the Committee for Equal Treatment of Asbestos Minority Shareholders (CETAMS) in which CETAMS sought an order against the Quebec government. CETAMS is seeking leave to appeal the Ontario decision to the Supreme Court of Canada.

March 2, 1999

*David Singh, Jeffrey Lipton, Infinity Investment Counsel Ltd. and Fortune Financial Corporation* were sanctioned by the Commission regarding an investment made by Infinity mutual funds in a related entity. In subsequent proceedings, all respondents except Fortune were sanctioned as a result of a misleading advertisement relating to the earlier proceeding.

March 11, 1999

*Dax Sukhraj* was reprimanded by the Commission for his failure, for a considerable time, to comply with a representation made to the Commission that he would cover improper losses suffered by clients of a business he had purchased.

March 29, 1999

In *Maple Leaf Sports & Entertainment Ltd., Steve Stavro, Brian Bellmore and Donald Crump*, the corporation agreed to pay \$1.6 million to the Commission, and the individual respondents agreed not to act as directors of a public company for eighteen months. The sanctions resulted from inadequate disclosure made in connection with the takeover of Maple Leaf Gardens, Limited.



## A New Energy at the OSC

*A message from the Chair* There is a new sense of energy at the Ontario Securities Commission. That energy was evident throughout 1998/1999, as the Commission's staff made substantial progress in transforming our organization into a more effective and accountable self-funded Crown Corporation. The details of this accountability are found in the Management's Discussion and Analysis which accompanies this report. Equally invigorating was the regulatory leadership role that the OSC and its staff are increasingly playing on a national and international basis.

David A. Brown, Q.C.

Chair

At home and around the world, the OSC is gaining a well-earned reputation for shaping innovative, flexible solutions – solutions which protect investors, provide clear and fair rules to market participants, and ensure the vitality of capital markets in a rapidly changing environment.

*A New Regulatory Playing Field* An excellent example of this reputation at work is our collaboration with the CSA (Canadian Securities Administrators) last year to begin the reformulation of financial services regulation in Canada. To understand this issue, we need to briefly look back: the regulatory system that is currently in existence in this country evolved more than three decades ago. Put simply, it is a system based on the regulation of institutions, rather than on the financial products and services those institutions provide.

While that system may have been appropriate then – when the activities of banks, insurance companies, securities firms and trust companies tended to be unique to each institution – it no longer reflects the realities of present-day markets. Today, the lines between financial services players have blurred: institutions are offering increasingly similar products and services, while being regulated very differently at provincial and federal levels.

Clearly, it no longer makes sense to divide regulatory responsibilities along institutional lines. Accordingly, last year we collaborated with the CSA, federal banking regulators and provincial regulators of insurance, trust and loan, and pension fund companies to lay the groundwork for a level and more effective regulatory playing field which assigns authority along functional lines.

*Toward a Virtual National Commission* Inherent in this discussion is the issue of regulatory fragmentation. With 13 separate securities regulators (10 provinces and, now, three territories) operating in what is essentially one capital market, there is great potential for inefficiency and inconsistency. While early efforts to build a national securities commission met some regional resistance, the OSC worked with the CSA last year to develop a Mutual Reliance Review System (MRRS).

At its core, the MRRS is an agreement that securities regulators in one province are prepared to rely on the analysis, review, and recommendations of those in another province for certain filings made in more than one jurisdiction. This agreement – which prevents administrative duplication and fills regulatory gaps – reduces fragmentation and encourages greater participation amongst regulators.

The MRRS is but one piece of the Canadian Securities Regulatory System, the national system of harmonized, coordinated rules administered by the CSA.

*Bringing Method to Mutual Fund Regulation* Last year was also a milestone year for mutual fund regulatory reform. Canadians now have more money invested in mutual funds than they have on deposit at banks and other financial institutions. In response to this unprecedented growth, the OSC – in concert with the CSA – supported a joint venture between the Investment Dealers Association and the Investment Funds Institute of Canada to form the Mutual Fund Dealers Association, a new self-regulatory organization for all mutual fund market participants.

The OSC's new Investment Funds team was instrumental in this process, which also entailed developing stronger prospectus disclosure standards and codes of conduct for the mutual fund industry. In this regard, we have played an important role in carrying out the recommendations made in the 1995 Stromberg report on Regulatory Strategies for the Mid-90s.

*Focusing on Alternative Trading Systems* Another critical issue that faces securities regulators, market participants and investors alike is the explosive growth of alternative electronic trading systems. In 1998/1999, the OSC played a leading role in establishing guidelines for introducing these systems in Canada.

This process began early in the year when we, along with other CSA members, hosted a public forum – attended by a cross-section of market participants – to table submissions on how a “made-in-Canada” alternative electronic trading system should be designed. Armed with this information, and in consultation with the SEC in the United States, the CSA designed a program which would permit alternative trading systems to operate in Canada without perpetuating the fragmentation of trading systems that we are currently experiencing.

We have prepared the new alternative trading systems rules in ongoing consultation with the Canadian stock exchanges, as well as with potential alternative trading systems providers.

*Leading the Year 2000 Drive* No annual report, regardless of the sector, would be complete without reference to Year 2000 initiatives. At the OSC, this discussion takes on even greater significance, as it encompasses not only the steps we have taken internally to be Y2K-ready, but the leading role that we have taken along with our CSA colleagues to mobilize the market to address this critical issue.

Our Year 2000 mandate is clear: to protect investors and the integrity of the Canadian capital market. In early 1998, our efforts focused on raising awareness, providing guidance and monitoring market participants’ progress. Later in the year, that focus shifted decidedly toward testing and contingency planning.

The CSA has designed a mandatory, industry-wide testing regime to help minimize the potential risks associated with the changeover of the millennium. During the year, we also worked alongside the CSA to develop a program to review reporting issuers’ Y2K disclosure, and developed a registrants’ national status reporting system on Y2K readiness. These

status reports, available on our Web site, give market participants and investors a valuable tool to evaluate the readiness of the organizations with which they do business.

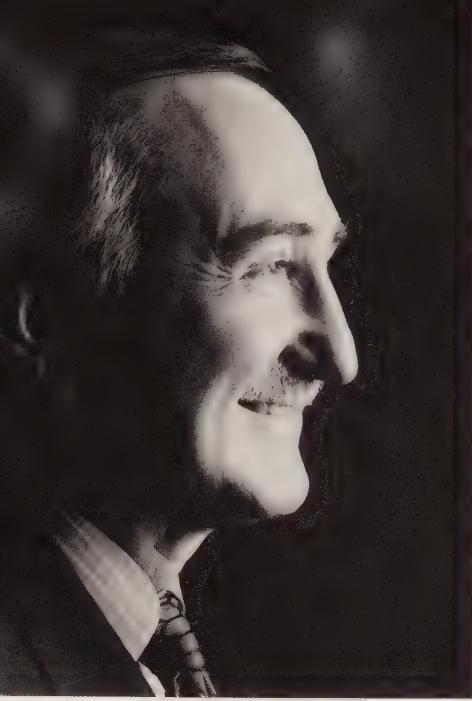
*A Place at the International Table* My predecessors at the OSC began a tradition of involvement in securities regulation on an international level. Today, our contributions to worldwide regulatory harmonization have become even more important as securities trading becomes an increasingly global activity. For example, we play a senior role in the International Organization of Securities Commissions (IOSCO), and members of our staff are active members in all of IOSCO's working groups.

This involvement helps us promote a system under which the products that Canadians have access to outside our borders will be subject to the same regulatory rigours as they are here at home. It also assures Canadian companies that doing business internationally will not become a regulatory burden. Equally important, it gives the OSC access to the most current thinking around securities regulation.

At a global, national and provincial level, the OSC undertook many important initiatives last year. As we look to the coming year, we will be focusing our energies on making even greater progress on these initiatives, remaining responsive to emerging market and enforcement issues, and continuing our role as change agents on every regulatory level.

*It's an ambitious agenda. We have the dedication to carry it out.*

A handwritten signature in black ink, appearing to read "DA Barnhouse".



## A New Way of Doing Business

*A message from the Executive Director* It is, perhaps, an understatement to say that 1998/1999 was a year of unprecedented change at the Ontario Securities Commission. As we embarked on our first full year as a self-funded Crown Corporation, the OSC made enormous strides within our own walls to become a more business-focused, results-oriented organization. Concurrently – as David Brown has discussed – we played a highly active regulatory role, ensuring investors enjoy fair and efficient capital markets.

Charles F. Macfarlane  
Executive Director

Our success is due in great part to the efforts of our predecessors. Despite years of chronic under funding, the management and staff of the OSC performed admirably and created the platform on which we are now building.

*Building a Business Culture* Restructuring the OSC was very much a case of confronting a blank page. We had to build, from the ground up, many systems and infrastructures that had previously not been under our control. We consciously took a very assertive approach – much like that used in a retail organization – to re-build an OSC that is keenly responsive to the needs of the marketplace.

In building that bridge to our marketplace, we are putting in place a number of critical supports. These include new compensation, budgeting and financial accounting systems, and implementing a new technological platform for our internal systems.

We also brought our employee salary structure in line with the marketplace. The benefits of this move are twofold: it allows us to retain the truly talented and dedicated team of employees that was already on board at the OSC, while positioning us to attract even more top candidates as we increase our staff complement by about 50% in the coming year.

*Serving Our Markets* We made a number of key moves last year to reflect the changing financial landscape in Ontario and across the country. We began by transforming our Market Operations area into two distinct branches: Corporate Finance, which oversees issuers, and Capital Markets, which oversees markets – both existing and emerging – and distributors in those markets.

We also created an Investment Funds Team, which focuses on the policy and disclosure activities of mutual fund issuers, managers and sales forces. This specialized team has its finger on the pulse of emerging issues in the mutual fund industry, enabling the OSC to be more pro-active in regulating this increasingly prominent market.

Similarly, we established a Take Over Bid Team, to review and refine policies relating to take-over bids, mergers and acquisitions, and to provide advice to players involved in these activities before dispute hearings are convened.

A new Market Structures Team, part of our Capital Markets branch, is now in place to oversee self-regulatory organizations (SROs) in the areas of markets and clearing. This team also focuses on new trends and issues, such as the demutualization of the TSE, and is very involved in crafting new policy to deal with the rapid growth of alternate trading systems including those found on the Internet.

We also created a Continuous Disclosure Team: in the past, the OSC's focus on issuers was primarily centered on reviewing prospectuses for primary offerings. Today, however, with more than 90% of the activity happening in the secondary market, we need to protect investors by overseeing the disclosures that companies make on a continuous basis.

These moves directly support our compliance-enforcement function, and ultimately make us that much more effective at protecting investors and maintaining the well-being of capital markets. The best evidence of our success is the fact that, in 1998/1999, we were able to complete a number of significant enforcement initiatives under an accelerated timetable, and to take on an expanded list of investigations.

*Making Contact Much Better* Last year, the OSC received close to 8,000 calls and letters from individuals with inquiries and complaints. Last year, those same individuals began to encounter a far more customer-friendly reception than in years past. That's because we are in the process of re-positioning our Inquiries and Complaints area as a Contact Centre – not unlike what you would find in a retail distributor. We're backing up this commitment with staff training and are in the process of installing more responsive call centre technology.

The benefit to constituents is more rapid, accurate handling of their calls; for the OSC, it supports our enforcement efforts, as calls can be better assessed for their potential to turn into enforcement issues.

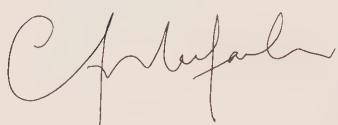
*There's Much Afoot* There is a great deal happening at the OSC – I've touched on just a fraction of it. With so much activity planned and underway, it is vital that we remain focused on the activities which best serve the interests of our constituents. That's why we have implemented a new project management system, to ensure we allocate the appropriate resources and attention to those projects that will have the greatest impact.

This system – along with our capable and larger team, more dynamic structure, and newfound financial independence – will be critical as we continue to make the OSC a more accountable, responsive and influential organization even while demand for our services grows.

As we look ahead, our focus – in addition to the regulatory initiatives outlined by David Brown – will be on completing the transition and the significant growth we have targeted in all areas; implementing a state-of-the-art case management system and an even more powerful prioritization system in our Enforcement Branch; taking an additional step toward fulfilling our commitment to reduce our fees; and instituting a formal performance measurement program to foster even greater accountability to our constituents.

The pace and level of change at the OSC has been extraordinary. But then, so too has the pace and level of change in our financial markets. Backed by an equally extraordinary team, the Ontario Securities Commission is in excellent shape to meet the demands.

*Things just aren't what they used to be. Neither are we.*

A handwritten signature in black ink, appearing to read "Christopher D. Seisay". The signature is fluid and cursive, with a large, stylized 'C' at the beginning.

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Being aware of change is all very well and good. One could hardly fail to note the forces of change at work in our financial markets – forces that have given way to the appearance of new providers and products, just as they have prompted the disappearance of global and institutional financial borders. Yet recognizing change is just one step on the path towards our goal of strong capital markets and healthy economic growth. The more critical part of the journey is how well we anticipate the changing tides, and how rapidly we respond with fitting answers.

The OSC's bottom line is simple: we are here to protect investors and to foster fair and efficient capital markets. Inherent in this mandate is the need to set clear, reasonable and flexible rules that will instill confidence in investors.

We are making great strides in balancing these objectives. We are finding innovative ways to safeguard investors while relieving market participants of multiple layers of regulation.

# rapid change calls for decisive action

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Last year we worked with the CSA to develop reforms to mutual fund regulation. Among other recommendations, the new prospectus disclosure system proposes that investors receive a short, plain-language Simplified Prospectus with fund-specific information provided in a catalogue format to facilitate comparison among funds.

Another initiative last year was our work with more than a dozen industry participants to develop guidelines for alternative trading systems. With Internet trading and offerings becoming increasingly popular, we have, along with the CSA, requested comments on two policies dealing with electronic issues.

Also important is the OSC's contribution toward a new model for Canadian financial services regulation – one which would yield a better supervised regulatory system that deals with all market issues, and a disclosure system that would allow investors to make more accurate product comparisons.



The radical changes we are making to the size, shape and structure of the OSC are our answer to changes in the marketplace. While we are quickly and efficiently reshaping ourselves on the inside, we are by no means complacent on the outside: throughout last year we played an active role in developing new solutions that respond to the needs of investors and market participants in Ontario, Canada and around the globe.

Remaining flexible to the sometimes disparate needs of our constituents can be an intricate dance – one which requires us to form co-operative relationships with investors, companies seeking capital and the intermediaries that bring these two groups together.

In 1998 we laid the groundwork for these more interactive relationships. We began to improve two-way communications by re-thinking the way we deal with inquiries and complaints. With calls to the OSC increasing by 30% over the previous year, plans are well underway to increase Contact Centre staff by 40%, a move that will allow us to respond to calls and inquiries more quickly and accurately. Our new Web site, which averages 3300 visits per week, is another way we are making better contact with our constituents. The

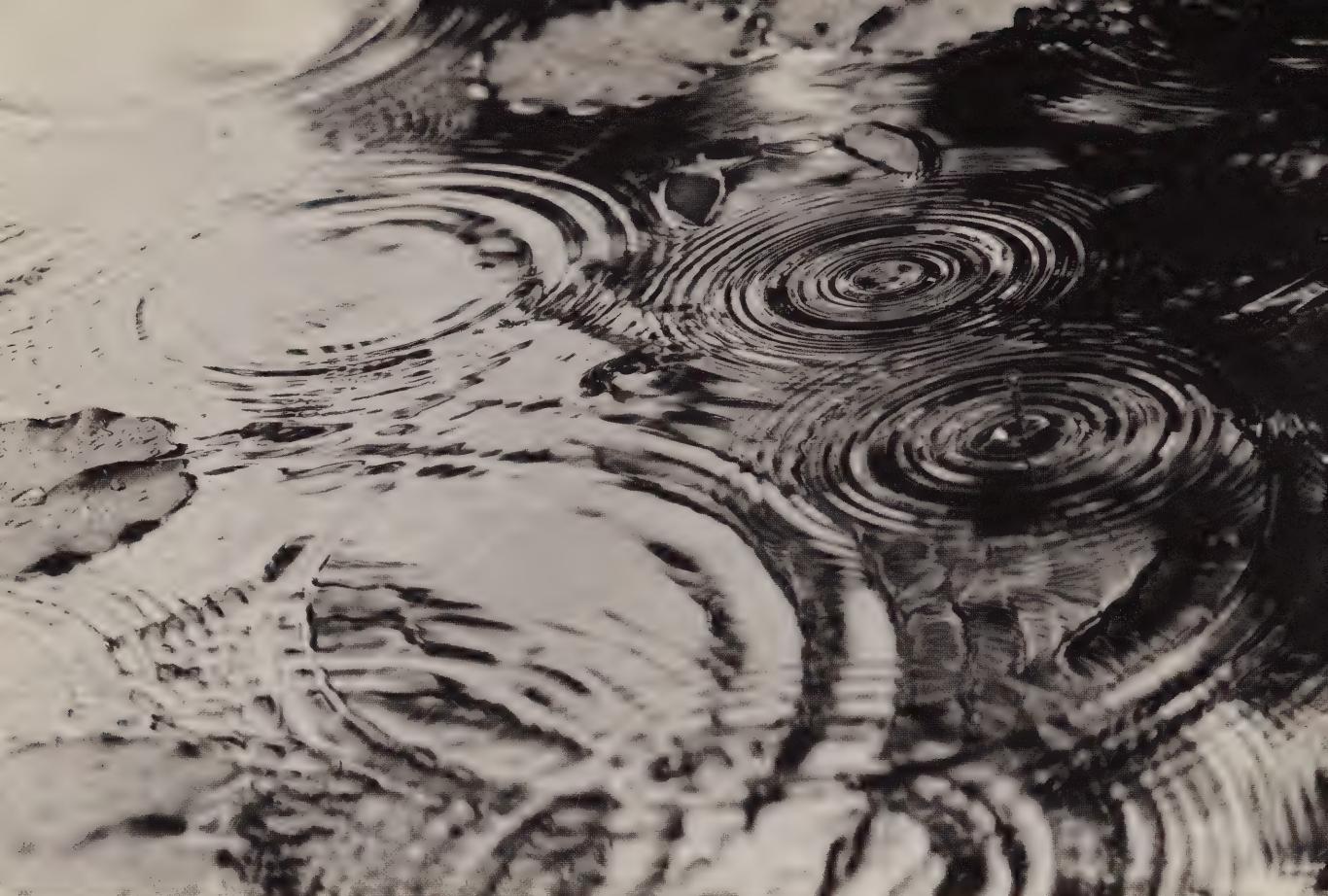
# sometimes the greatest strength is flexibility

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OSC also played a key role in educating investors during National Investor Education Week, including participating with other investor associations in community education seminars throughout the province.

We also increasingly involved our constituents in policy-making discussions. The joint OSC/Toronto Stock Exchange Mining Standards Task Force is a case in point. More than 100 commentators had an opportunity to provide input into its final report, which contained recommendations to preserve Canada's leadership in the exploration and mining industry, while ensuring investor protection, and reinforcing global investor confidence in the Canadian securities markets.

With these seeds planted, we will be branching out even further to capture and respond to the voices of our constituents: regular surveys and feedback mechanisms to pinpoint their key issues will become an integral part of the OSC mandate. We will also scrutinize our own actions by instituting a formal "balanced scorecard" performance measurement program.



Adding depth and breadth to our already impressive pool of talent is key to improving the efficiency and timeliness of investigations and enforcement activities. And our goal of attracting the best and the brightest is working – by gaining control over our agenda, and bringing our salary structure in line with the marketplace, we are transforming the OSC into a destination employer.

Adding numbers to our ranks is just the beginning. We have also renewed our internal organization to reflect today's market realities. We are encouraging the cross-fertilization of ideas and skills by moving staff between our seven branches, and undertaking targeted training and development programs. We are fostering a team approach, which assures our constituents of more timely, consistent and comprehensive responses.

Our commitment to giving our staff the big picture flows beyond our walls and across national and international borders. This is evident in the contributions that OSC

# from each drop springs a pool

22 23

representatives make to national regulatory efforts alongside their CSA colleagues. Our leadership role in preparing for the Year 2000 included helping to identify 31 key market participants as crucial links within the Canadian capital markets system and reviewing the adequacy of Y2K disclosure of more than 100 companies.

Our staff also played a key role in the Mutual Reliance Review System. Last year, more than 140 delegates from across Canada attended the OSC-hosted training session for MRRS – a system which will result in far more efficient and effective regulation across the country. The OSC was also well represented on a global level, in particular through the Technical Committee of the International Organization of Securities Commissions.

Call it the ripple effect. Our diversely skilled staff, in tune with our ever-expanding, ever-changing role in the marketplace, is renewing the strength and mandate of the OSC.

## **1999 - 2000 Corporate Priorities**

The Commission will continue to recruit aggressively in the 1999/2000 fiscal year to ensure operations are appropriately staffed to provide consistent, timely and reliable services of superior value. In furtherance of its strategic goals, resources will be focused on the following corporate priorities:

- 1) Provide leadership in readying the capital markets for Y2K; support industry testing and contingency plan development; perform follow up reviews of registrant and issuer disclosure programs.
- 2) Significantly increase resources in Capital Markets, Corporate Finance and Enforcement to provide additional focus on monitoring of compliance with disclosure requirements by market participants and increased emphasis on case assessment, investigations and enforcement.
- 3) Lead initiatives to redefine the mandates and activities of all Canadian regulators of financial service providers. Contribute to increased coordination of financial services regulation within Ontario through participation in Ontario Council of Financial Regulators.
- 4) In conjunction with CSA partners address issues arising from the proposed restructuring of Canadian exchanges.
- 5) Provide an effective regulatory regime for existing, alternative, and emerging trading systems including the Internet.
- 6) Complete fee review with CSA partners and begin to implement restructured fees to bring revenues and costs into closer alignment.
- 7) Support the establishment and recognition of the Mutual Fund Dealers Association and seek regulatory options to improve the governance of mutual funds.
- 8) Participate actively in international organizations (e.g. IOSCO) to represent Ontario during the development of regulatory standards and approaches related to international capital markets.
- 9) Propose reforms of prospectus and continuous disclosure requirements for mutual funds.
- 10) Develop proficiency standards for financial planning and rules for implementation.

For the detailed operational priorities of the OSC for 1999 - 2000, please refer to the OSC's "Statement of Priorities for 1999 - 2000" which is available on the OSC Web Site, [www.osc.gov.on.ca](http://www.osc.gov.on.ca), or through the publications line, (416-593-3699).

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Ontario

Ontario Securities Commission

# financial statements and statistical summaries

For the Year Ended March 31, 1999





## Management's Discussion and Analysis

The financial statements present the results of the Ontario Securities Commission for the year ended March 31, 1999. The following comments provide an analysis of the Commission's operations and should be read in conjunction with the financial statements.

On November 1, 1997, amendments to the *Securities Act* were proclaimed, continuing the Commission as a corporation without share capital. The amendments allow the Commission to use the revenue it generates from fees for its operations and established it as an independent employer responsible for hiring its own staff and managing its own administrative support. Prior to November 1, 1997, the Commission was funded through the Estimates of the Ministry of Finance and its staff were hired as public servants.

The establishment of terms and conditions of employment was a key component of the Commission's transition to independent status. On November 1, 1997, the Commission entered into a service delivery agreement with the Ministry of Finance to ensure the provision of securities regulatory and related support services while the human resource and administrative infrastructure required to operate more independently was developed. Under the terms of the agreement, staff providing services remained employees of the Ministry of Finance and the OSC was billed monthly for their services.

In the fall of 1998, the Commission completed the development of its financial and human resource infrastructure and made offers of employment, effective November 1, 1998, to Ministry staff. The service delivery agreement was terminated at that time, although the Ministry of Finance continues to provide a limited number of administrative services to the Commission on a fee for service basis.

The attached financial statements reflect the expenditures incurred and the revenues collected for the five months ended March 31, 1998, as well as the full year expenditures and revenues for the year ended March 31, 1999.

### Analysis of Operating Results

For purposes of analysis, certain prior year comparisons have been made which include expenditures and revenues for the period April 1 to October 31, 1997, when the Commission operated within the budget of the Ministry of Finance.

#### *Excess of Revenue over Expenditures*

Excess of revenue over expenditures for the twelve months ended March 31, 1999 was \$45.0 million. In accordance with the provisions of the *Securities Act*, the Minister of Finance may require the Commission to remit funds which are surplus to its operating requirements to the Province of Ontario. During this twelve month period, the amount distributable from the Commission to the Province was \$37.0 million. The general operating surplus as at March 31, 1999 was \$544,748. Based on its approved budget and forecast revenues, the Commission anticipates the remittance of \$6.6 million to the Province in 1999/2000.

## *Revenue*

The Commission has four primary sources of revenue:

- *Prospectus filings*, comprised of fees for preliminary and final filings and mutual fund renewals, accounted for 55% of total revenues. These fees represent the most variable component of the Commission's revenue base given their close correlation to the level of market activity.
- *Registrations*, comprised of fees for registration of dealers, advisors and salespersons, accounted for 32% of total revenues.
- *Disclosure filings*, comprised of fees related to filings by reporting issuers accounted for 10% of total revenues.
- *Applications for Exemptive Relief*, generated through assessment of applications from issuers for exemptions or modifications to filing requirements represent approximately 1% of total revenues.

In 1997/1998, \$82.8 million was collected under the *Securities Act* and the *Commodity Futures Act*. The Commission financial statements only reflect the \$26.6 million collected by the Commission after November 1, 1997. The balance of these 1997/1998 fees were collected by the Ministry of Finance. For comparative purposes, total annual revenues are used below, whether collected by the Ministry of Finance or the Ontario Securities Commission. Total revenue for 1998/1999 was \$75.5 million. This represented a decline of \$7.3 million or 8.8% from 1997/1998. Prospectus filings fee revenue declined by \$6.3 million due to fewer market financing activities. Revenue related to the secondary market fee decreased by \$2.6 million from the previous year. This fee was eliminated in September 1997; however, as registrants are required to remit these fees with their annual renewal, revenue from this source continued to be collected until September 1998. These decreases in revenue were partially offset by a \$1.3 million increase in registration revenue. Consistent with the year over year change, revenue for the five months ended March 31, 1999 declined by 9.0% to \$24.2 million.

## *Expenditures*

For comparative purposes, total expenditures have been used, whether incurred directly by the Ontario Securities Commission or by the Ministry of Finance relating to activities undertaken on behalf of the Commission. Total annual expenditures in 1997/1998 were \$22.1 million. Total expenditures for 1998/1999 were \$30.5 million against a budget of \$33.0 million. The key contributors to the year over year expenditure increase were as follows:

*Salaries and Benefits* account for more than 60% of the Commission's total expenditures. Salaries and wages increased by \$4.8 million in 1998/1999 due to both changes in the compensation system and increases in staff levels. The compensation package offered by the Commission includes competitive salaries and benefits which were developed following an independent comprehensive review of market rates. In November, 1998, the Commission launched an aggressive national advertising campaign which resulted in the successful recruitment of additional specialized professional staff.

*Occupancy Expenditures* increased by \$1.2 million. Actual costs related to occupancy have not changed materially. However, prior to November 1, 1997, occupancy expenditures were not included by the Ministry of Finance as part of the operating costs of the Commission.

*Professional Services* increased by \$1.8 million primarily due to significant use of fee for service staff required to undertake workload while the Commission increases its staff. Approximately 40% of these costs were incurred for enforcement related legal services. These resources were also used to address Year 2000 and policy reformulation workload. The Commission expects to continue to have an ongoing need to use specialized external, legal and forensic accounting resources.

Professional services were also used for a number of one time, transition related activities including establishment of a compensation plan, performance systems and development of human resource and financial policies.

#### *Capital Transactions*

Capital expenditures of \$2.8 million were made during the 1998/99 fiscal year. The expenditures related primarily to investments in information technology including the acquisition of the financial information system required to enable the Commission to operate independently, the upgrade of the Commission's internal computing network and desktop operating system, the replacement of outdated computer equipment, and the provision of equipment for increased staff complement. The Commission plans to maintain state of the art information technology capabilities and the acquisition of computer equipment and upgrade of systems will continue to be significant capital expenditures in the future.

#### *Liabilities*

Included in the accounts payables and accrued liabilities is \$ 2.1 million relating to a provision for refunds of prospectus revenues. The amount of revenue to be realized from prospectus filing fees is uncertain. Fees are paid based on estimated sales and refunds are issued as required based on actual sales. As a result, this revenue is recognized net of a provision for expected refunds. At the beginning of each fiscal year the Commission establishes a percentage for the provision for expected refunds based on the experience of the previous three years. In 1998/1999 the Commission refunded \$3.7 million of prospectus fees of which \$1.6 million related to prior year fees and \$2.1 million related to current year fees.

In support of the development of the Mutual Funds Dealers Association (MFDA), the Commission has guaranteed 61% of a total \$12 million line of credit as assistance during their startup of operations. The Alberta Securities Commission and the British Columbia Securities Commission have also guaranteed a specific percentage of the total indebtedness. As at March 31, 1999 the MFDA had drawn \$640,000 on this credit line.

### *Reserve*

The Commission requires liquidity to finance its operations and capital purchases. As at March 31, 1999 the Commission held cash in the amount of \$13.4 million, current assets of \$14.8 million and current liabilities of \$8.8 million for a current ratio of 1.7:1. The fact that a significant proportion of the current revenue base is dependent on the level of market activity is a source of risk for the Commission. As a result, the Commission has obtained approval from the Minister of Finance to establish a reserve fund of \$20 million to be used as an operating contingency for revenue shortfalls or unexpected expenditures. During the past fiscal year \$7.5 million was retained towards the establishment of the reserve. The Commission will contribute \$7.5 million in 1999/2000 and \$5.0 million in 2000/2001 to the reserve. These funds will be invested early in 1999/2000. The prime investment consideration for the reserve funds is the protection of capital and the selection of maturities appropriate to meet anticipated cash flow needs.

### **1999/2000 Outlook**

The Commission has budgeted 1999/2000 operating expenditures of \$44.8 million and a capital budget of \$3.3 million. More than half the growth in the budget relates to a planned 45% staffing increase. The majority of new staffing will be in direct program delivery areas including enforcement, corporate finance, compliance and market regulation. These resources will allow the Commission to significantly increase its regulatory presence and effectiveness.

Occupancy costs are projected to increase significantly as the Commission has committed to lease additional space and will be undertaking significant renovations in order to accommodate the planned staffing growth. Occupancy costs have been budgeted at \$3.5 million in 1999/2000. Actual costs are not known at this time pending the finalization of negotiations for space and the completion of leasehold improvements.

The other key budget increase relates to professional services costs. The Commission and other Canadian securities regulators are strongly committed to supporting external Year 2000 related work aimed at facilitating industry compliance and readiness. The Commission has budgeted \$2.6 million in 1999/2000, representing a \$2.0 million increase in funding for external Year 2000 activities. The Commission has also budgeted \$500,000 to implement a new project to provide funding and support to other enforcement authorities for the prosecution of securities related fraud.

In accordance with the provisions of the *Securities Act*, the Commission will be entering into a memorandum of understanding with the Minister of Finance to outline the ongoing roles, responsibilities and accountability relationships between the two parties. As part of this agreement the Commission expects to finalize arrangements with the Province to transfer, at no cost to the Commission, ownership of assets purchased by the Province prior to November 1997.

The Commission's revenue forecast for 1999/2000 is \$63.5 million, 16% lower than the \$75.5 million collected in 1998/1999. The forecast reflects the expected continuation of recent declines in prospectus fees due to reduced levels of market activity. The forecast also reflects the impact of a 10% across the board fee reduction effective August 1999. In consultation with stakeholders and other CSA jurisdictions, the Commission will be undertaking a comprehensive review of its current fee structure in order to streamline and simplify the fee structure and meet its commitment to align total fees with the cost of regulation by 2000/2001. The 10% fee reduction is being implemented as an interim step to demonstrate the Commission's commitment to take action on this important initiative.

### **Impact of the Year 2000 Issue**

In the normal course of carrying out its regulatory responsibilities, the Commission makes extensive use of information technology to collect and process data. In this regard, the Commission is dependent on internal hardware and software systems as well as certain external systems and information providers, including SEDAR. While the effective functioning of these systems is important to the efficient discharge of the Commission's responsibilities, the Commission's ability to discharge its regulatory duties, including responding to requests for exemptive relief or imposing and enforcing corrective actions on capital market participants is not dependent on information technology.

#### *The OSC's State of Readiness*

The Commission recognizes that the Year 2000 challenge is a global issue with cross industry implications. As a result, the Commission is not only addressing the readiness of its internal systems but also taking a proactive role with its constituents towards a joint goal of business continuity and sustained operations beyond the Year 2000 without disruption or material financial impact to our financial markets.

All essential Commission systems, software, and hardware have now been made ready for the Year 2000. Plans are in place to deal with the remaining minor remediation projects and sufficient resources will be allocated to ensure that all remaining issues are resolved. As a result, internal systems are not expected to cause any significant disruption to Commission operations.

To determine the extent of its vulnerability to the failure of third parties to remediate Year 2000 issues, the Commission has initiated contact with significant suppliers and requested written statements of Year 2000 compliance and ongoing reports of progress towards compliance. The Commission has been advised that the SEDAR application has been certified as Year 2000 ready. Progress reports from external service providers have been generally encouraging and 60% of our external suppliers have confirmed their Year 2000 compliance. While monitoring of external suppliers is ongoing, the Commission is unable to exert control over other entities to ensure that the products or systems which the Commission relies upon will be converted in a timely and effective manner.

#### *Risks Presented by the Year 2000 Issue*

The perceived risk to Commission systems is considered to be low. Given the complexity of the Year 2000 issue, including the Commission's dependence on third parties for important services, there can be no assurance that the Year 2000 remediation efforts of the Commission or of such third parties will be completely successful and that these steps will be sufficient to avoid any disruption of Commission operations.

#### *OSC Contingency Plans*

In order to deal with unforeseen impacts contingency planning has become a key focus of activity. Contingency planning consultants have been engaged to develop and finalize plans to address potential Year 2000 related interruptions to all critical and high priority systems. The Commission expects to finalize its contingency plans by June 30, 1999.

Manual control procedures are being identified and required data and related back up measures are being identified to minimize potential adverse impacts of Year 2000 interruptions or failures and to ensure that the Commission will be in a position to carry out essential regulatory functions. For example, should on line processing through a system such as SEDAR be interrupted, the processing of prospectuses and other disclosure documents will not be impaired significantly, although processing times may in some instances be increased. Staffing and redeployment plans are being developed to ensure that operational and regulatory issues can be addressed as they arise.

The Commission will continue to communicate proactively and play an active and direct role in supporting and facilitating industry wide testing and contingency planning. As part of this role, the Commission has been working with other CSA jurisdictions to plan and coordinate Year 2000 reporting, testing and monitoring measures for regulated market participants and for key infrastructure and information providers. As part of a joint CSA-Industry Year 2000 Contingency Planning Task Force, Commission staff are involved in industry-wide systems testing, assessing the most likely risk scenarios for Canadian capital markets and the development of Day Zero testing and monitoring for key industry players. The Commission's regulatory contingency plan will include planning, mitigation and response measures to address identified risk scenarios.

#### *OSC Costs to Address Year 2000 Issues*

The Commission has estimated the costs related to its internal Year 2000 preparations based on those that are incremental and unique to addressing the Year 2000 issue. Expenditures associated with normal replacement of systems and equipment are not included in the estimate. Costs associated with the preparation of the Commission's internal systems environment were approximately \$190,000 in 1998/1999 and are estimated at less than \$100,000 in 1999/2000.

The Commission expensed \$608,000 in costs associated with its role in supporting external Year 2000 related activities in 1998/1999. The Commission has budgeted \$2.6 million to support these activities in 1999/2000.

## Management's Responsibility

Management is responsible for the integrity of the financial statements and other information presented in the annual report. The financial statements have been prepared by management in accordance with generally accepted accounting principles.

The Ontario Securities Commission is committed to full and open disclosure of its operations and maintains a system of internal controls designed to provide reasonable assurance that reliable financial information is available on a timely basis. The preparation of financial statements involves the use of estimates based on management's judgement on transactions which will conclude in future periods.

The Board of Directors ensures that management fulfills its responsibility for financial information and internal control. The financial statements have been reviewed by the Audit Committee and approved by the Board of Directors. The Provincial Auditor's Report, which follows, outlines the scope of the Auditor's examination and opinion.



David A. Brown

Chair and Chief Executive Officer

May 28, 1999

## Auditor's Report

To the Ontario Securities Commission,

Office of the  
Provincial Auditor  
of Ontario



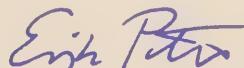
Bureau du  
vérificateur provincial  
de l'Ontario

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I have audited the balance sheet of the Ontario Securities Commission as at March 31, 1999 and the statements of operations and operating surplus and of cash flows for the year ended March 31, 1999. These statements are the responsibility of the Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Commission as at March 31, 1999 and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles.



Toronto, Ontario

May 28, 1999

Erik Peters, FCA

Provincial Auditor

**ONTARIO SECURITIES COMMISSION  
Balance Sheet**

As at March 31, 1999

	1999	1998
<b>ASSETS</b>		
CURRENT		
Cash (Note 3)	\$13,361,963	\$ 6,016,187
Accounts receivable	758,448	59,983
Current portion of designated settlement receivable (Note 4)	550,000	—
Prepaid expenses	121,012	135,896
	<u>14,791,423</u>	<u>6,212,066</u>
DESIGNATED SETTLEMENT RECEIVABLE (Note 4)	550,000	—
CAPITAL ASSETS (Note 6)	3,002,827	345,108
	<u>\$18,344,250</u>	<u>\$ 6,557,174</u>

**LIABILITIES**

CURRENT

Accounts payable and accrued liabilities	\$ 6,517,820	\$ 6,414,182
Due to Province of Ontario (Note 1)	1,858,061	—
Current portion of obligation under capital leases (Note 7(b))	453,759	—
	<u>8,829,640</u>	<u>6,414,182</u>
OBLIGATION UNDER CAPITAL LEASES (Note 7(b))	271,618	—
	<u>9,101,258</u>	<u>6,414,182</u>
DESIGNATED SETTLEMENT (Note 4)	1,100,000	—

**SURPLUS**

OPERATING

General	544,748	44,748
Reserve (Note 3)	7,500,000	—
	<u>8,044,748</u>	<u>44,748</u>
CONTRIBUTED (Note 8(a))	98,244	98,244
	<u>8,142,992</u>	<u>142,992</u>
	<u>\$18,344,250</u>	<u>\$ 6,557,174</u>

See accompanying notes to financial statements.

ON BEHALF OF THE COMMISSION

David A. Brown  
Chair

Kerry D. Adams, CA  
Commissioner

**ONTARIO SECURITIES COMMISSION**  
**Statement of Operations and Operating Surplus**

For the Year Ended March 31, 1999

	Year Ended March 31, 1999	Five Months Ended March 31, 1998	08 09
<b>REVENUE</b>			
Fees			
Prospectus filings	\$41,275,685	\$ 15,850,942	
Registration	24,403,354	6,338,231	
Disclosure filings	7,860,050	2,778,640	
Applications for exemptive relief	1,101,133	629,031	
Secondary market	286,298	973,981	
Recoveries	505,000	29,750	
Miscellaneous	71,987	19,357	
	<u>75,503,507</u>	<u>26,619,932</u>	
<b>EXPENDITURES (Note 8(c))</b>			
Salaries and benefits (Note 9)	18,802,819	6,130,509	
Professional services (Note 10)	5,844,422	2,390,099	
Occupancy	2,704,469	1,075,809	
Administrative	2,397,816	711,454	
Travel	556,081	123,960	
Amortization	149,813	—	
	<u>30,455,420</u>	<u>10,431,831</u>	
<b>EXCESS OF REVENUE OVER EXPENDITURES</b>	<b>45,048,087</b>	<b>16,188,101</b>	
<b>OPERATING SURPLUS, BEGINNING OF PERIOD</b>	<b>44,748</b>	<b>—</b>	
LESS: Distributions to Province of Ontario	37,048,087	16,143,353	
<b>OPERATING SURPLUS, END OF PERIOD</b>	<b>\$ 8,044,748</b>	<b>\$ 44,748</b>	
<b>Represented by:</b>			
General	\$ 544,748	\$ 44,748	
Reserve	7,500,000	—	
	<u>\$ 8,044,748</u>	<u>\$ 44,748</u>	

See accompanying notes to financial statements.

**ONTARIO SECURITIES COMMISSION  
Statement of Cash Flows**

For the Year Ended March 31, 1999

	<u>Year Ended March 31, 1999</u>	Five Months Ended March 31, 1998
<b>NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES</b>		
Cash flows from operating activities		
Excess of revenue over expenditures	\$ 45,048,087	\$ 16,188,101
Adjustments for amortization	149,813	—
	<b>45,197,900</b>	16,188,101
Changes in non-cash working capital		
Accounts receivable	(698,465)	(59,983)
Prepaid expenses	14,884	(135,896)
Due to Province of Ontario	1,858,061	—
Obligation under capital leases	725,377	—
Accounts payable and accrued liabilities	103,638	6,414,182
	<b>2,003,495</b>	6,218,303
	<b>47,201,395</b>	22,406,404
Cash flows from financing activities		
Distributions to Province of Ontario	(37,048,087)	(16,143,353)
Contributions from Province of Ontario	—	98,244
	<b>(37,048,087)</b>	(16,045,109)
Cash flows from investing activities		
Purchase of capital assets	(2,807,532)	(345,108)
	<b>(2,807,532)</b>	(345,108)
<b>NET INCREASE IN CASH POSITION</b>	<b>7,345,776</b>	6,016,187
<b>CASH POSITION, BEGINNING OF PERIOD</b>	<b>6,016,187</b>	—
<b>CASH POSITION, END OF PERIOD</b>	<b>\$13,361,963</b>	\$ 6,016,187

See accompanying notes to financial statements.

# Notes to the Financial Statements

March 31, 1999

## 1. Nature of the Corporation

Effective November 1, 1997, amendments to the *Securities Act* continued the Ontario Securities Commission (the "Commission") as a corporation without share capital. The Commission functions as an independent regulatory agency and administrative tribunal responsible for overseeing the securities industry in Ontario. As a Crown corporation, the Commission is exempt from income taxes.

In accordance with the provisions of the *Securities Act*, the Minister of Finance may require the Commission to remit to the Province of Ontario funds which are surplus to its operating requirements.

## 2. Significant Accounting Policies

These financial statements have been prepared in accordance with generally accepted accounting principles. Significant accounting policies followed in the preparation of these financial statements are:

### a) Capital assets

Capital assets are recorded at cost less accumulated amortization. Amortization is calculated on a straight-line basis over the estimated useful lives of the assets, beginning in the fiscal year following acquisition, as follows:

Office furniture and equipment	5 to 10 years
Computer hardware and related applications	2 years
Computer equipment under capital leases	2 years

10 | 11

### b) Revenue

Fees are recognized when earned which is normally upon receipt. The amount of revenue to be realized from prospectus filing fees is uncertain. Fees are paid based on estimated sales and refunds are issued, as required, based on actual sales in Ontario. As a result, revenue from prospectus filings is recognized net of a provision for expected refunds. At the beginning of each fiscal year the Commission establishes a percentage for the provision for expected refunds based on the experience of the previous three years. The provision is adjusted at year end. Continuous disclosure filing fees are recognized upon receipt of filing.

Recovery of costs of investigations is recognized as revenue upon date of decision unless management determines there is no reasonable assurance as to ultimate collection. When there is no reasonable assurance as to ultimate collection, revenue is recognized when cash is received.

### c) Use of estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenditures for the period. Actual amounts could differ from these estimates.

# Notes to the Financial Statements

March 31, 1999

## 3. Reserve

As part of the approval of its self-funded status, the Commission was allowed to establish a \$10.0 million reserve to be used as an operating contingency against revenue shortfalls or unanticipated expenditures. In April, 1999, the Commission obtained approval to increase the reserve to \$20.0 million over a three year period. During 1998/1999, \$7.5 million was retained. These funds are currently held in cash and will be invested early in 1999/2000. A further \$7.5 million will be retained in 1999/2000 and \$5.0 million in 2000/2001. The prime investment consideration for the reserve is the protection of principal and the selection of maturities appropriate to meet anticipated cash flow needs.

## 4. Designated Settlement

According to the terms of a settlement agreement reached on March 18, 1999, \$1.1 million is receivable by the Commission, in trust, to be allocated to such third parties as the Commission may determine, to be used for purposes that will benefit investors in Ontario. The receivable is due in four equal instalments, on: September 29, 1999, March 29, 2000, September 29, 2000 and March 29, 2001. Recognition of the designated settlement as revenue has been deferred until related expenditures are incurred.

	1999
Designated settlement receivable	\$ 1,100,000
Less: Current portion	550,000
	<u>\$ 550,000</u>

## 5. Commitments and Contingencies

- The Commission has guaranteed 61% of a total \$12 million line of credit from a Canadian bank for the Mutual Fund Dealers Association of Canada (MFDA). The guarantee was signed March 19, 1999 and can be terminated by the Commission at any time. The Alberta Securities Commission and the British Columbia Securities Commission have also guaranteed a specified percentage of the total indebtedness. The MFDA has signed an agreement which requires it to use the funds only in accordance with the budget and business plan as approved by each of the Commissions, and also commits the MFDA to repay its loan by the end of the seventh year. As at March 31, 1999, the MFDA has drawn \$640,000 on this line of credit. Interest is charged at prime plus 0.50% per annum.
- The Commission is involved in various legal actions arising out of the ordinary course and conduct of business. Settlements, if any, concerning these contingencies will be accounted for in the period in which the settlement occurs. The outcome and ultimate disposition of these actions are not determinable at this time.

# Notes to the Financial Statements

March 31, 1999

## 6. Capital Assets

			1999	1998
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Office furniture	\$ 119,690	\$ 13,696	<b>\$ 105,994</b>	\$ 68,480
Office equipment	68,599	549	<b>68,050</b>	5,492
Computer hardware and related hardware	2,132,626	135,568	<b>1,997,058</b>	271,136
Computer equipment under capital leases	831,725	—	<b>831,725</b>	—
	<b>\$ 3,152,640</b>	<b>\$ 149,813</b>	<b>\$ 3,002,827</b>	<b>\$ 345,108</b>

## 7. Lease Obligations

### a) Operating

The Commission is committed to annual operating lease payments for office space of \$2,016,060. The lease term expires on August 31, 2005. The Commission has negotiated to lease additional space to accommodate its staffing growth. This will increase the annual lease payments by \$466,138.

### b) Capital

On termination of the service delivery agreement with the Ministry of Finance (Note 8(c)), lease obligations for computer equipment that were entered into by the Ministry, were transferred to the Commission and recorded at the present value of the minimum lease payments as at November 1, 1998. The present value of the lease payments for any new lease subsequently entered into by the Commission has been added to this value. All capital leases expire on or before December 31, 2001. As at March 31, 1999, total obligation under capital leases amounted to \$725,377 of which \$453,759 is due within one year. Interest owing on capital leases amounts to \$54,898.

12 | 13

## 8. Transactions with Province of Ontario

In the course of normal operations, the Commission entered into transactions with the Province of Ontario as follows:

a) On November 1, 1997, the Province of Ontario transferred prepaid expenses amounting to \$28,053 and accounts receivable balances of \$70,191 representing a total contribution of \$98,244 to the Commission's surplus.

b) The Commission has entered into a tri-party agreement with the Ontario Financing Authority to facilitate banking arrangements with a Schedule 1 Bank.

c) On November 1, 1997, the Commission entered into a service delivery agreement with the Ministry of Finance for the provision of regulatory and related support services to the Commission, at cost. The service delivery agreement ended October 31, 1998.

## Notes to the Financial Statements

March 31, 1999

The following expenditures were incurred by the Ministry of Finance on behalf of the Commission and are included in the Commission's expenditures. Comparative figures for the five month period ended March 31, 1998 are provided:

	For the period April 1, 1998 to October 31, 1998	For the period November 1, 1997 to March 31, 1998
Salaries and Benefits	\$ 9,246,847	\$ 5,991,710
Professional Services	2,581,749	2,236,727
Occupancy	1,788,980	1,075,809
Administrative	873,109	650,854
Travel	219,283	77,207
	<b>\$14,709,968</b>	<b>\$10,032,307</b>

### 9. Pension Plans

Effective November 1, 1998, the Commission began to provide pension benefits to its full-time employees through participation in the Public Service Pension Plan (PSPP) established by the Province of Ontario. The Commission's contribution to the pension plan for the year ended March 31, 1999 was \$372,071 (1998 - nil) and is included in salaries and benefits.

The Commission also maintains supplementary unfunded pension plans for certain full-time members of the Commission. The benefits earned to date by these members do not represent a material obligation to the Commission.

### 10. Transactions with the Canadian G-30

In September 1998, the Commission entered into a cost sharing arrangement with the Canadian G-30 Committee (a group which represents various securities industry participants). The Commission agreed to assume the leadership role on a Year 2000 related project. The goal of the project was to develop and implement industry-wide testing for Year 2000 preparedness. The Canadian G-30 agreed to provide funding up to \$1,492,752 to the Commission. As at March 31, 1999 the Commission had spent \$1,539,797 on this project of which \$1,112,296 was funded by the Canadian G-30. The net expenditure of \$427,501 is included in professional services.

### 11. Uncertainty Due to the Year 2000 Issue

The Year 2000 issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the Year 2000 as 1900 or some other date, resulting in errors when information using Year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 issue may be experienced before or after January 1, 2000.

If the Year 2000 issue is not addressed by the Commission's major customers, suppliers and other third party business associates, the impact on the Commission's operations and financial reporting may range from minor errors to significant systems failure which could affect the Commission's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 issue affecting the Commission, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

### 12. Comparative Figures

The comparative figures are presented for the five month period from November 1, 1997 to March 31, 1998. Certain of the comparative figures have been reclassified to conform to current presentation.

**ONTARIO SECURITIES COMMISSION  
Public Sector Salary Disclosure**

Name	Position	1998 Salary Paid	1998 Taxable Benefits
Bourque, Paul	Director, Market Operations	\$ 163,607	\$ 49
Brown, David	Chair and Chief Executive Officer	\$ 316,098	\$ 5,247
Carscallen, Morley	Vice Chair	\$ 165,818	—
Day, Robert	Manager, Business Planning	\$ 106,602	\$ 30
Geller, John A.	Vice Chair	\$ 186,445	\$ 671
Macfarlane, Charles	Executive Director and Chief Operating Officer	\$ 120,013	\$ 97
Spencer, Mary	Director, Corporate Services	\$ 153,373	\$ 5,750

Prepared under the *Public Sector Disclosure Act*, 1996.

## Five Year Statistical Summary

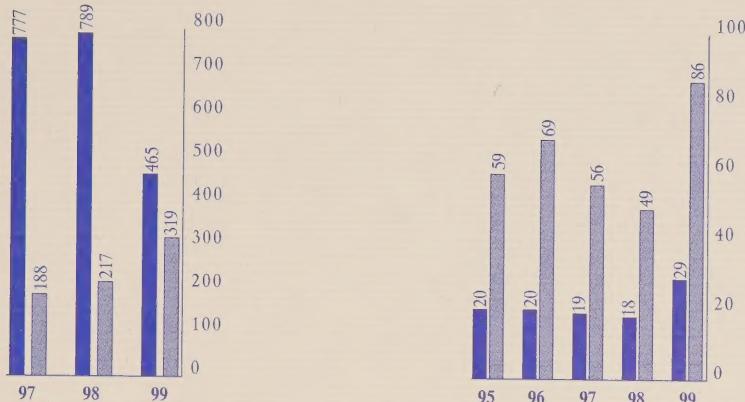
Fiscal Year Ending March 31, 1999

### Registration

	1995	1996	1997	1998	1999
<b>Businesses Registered</b>					
Dealers – All Categories	644	634	687	665	<b>668</b>
Advisors – All Categories	241	272	302	324	<b>354</b>
Dealer and Advisor – Dual Registration	93	93	98	162	<b>185</b>
Others (including exempt purchasers, commodity floor traders and competitive options traders)	167	193	191	195	<b>155</b>
<b>Total</b>	<b>1,145</b>	<b>1,192</b>	<b>1,278</b>	<b>1,346</b>	<b>1,362</b>
<b>Businesses Registered (By Act)</b>					
Securities Act (SA) only	1,035	1,059	1,144	1,193	<b>1,217</b>
Commodity Futures Act (CFA) only	69	88	85	89	<b>75</b>
Both SA and CFA	41	45	49	64	<b>70</b>
<b>Total</b>	<b>1,145</b>	<b>1,192</b>	<b>1,278</b>	<b>1,346</b>	<b>1,362</b>
<b>Individuals Registered</b>					
Salespersons	30,459	33,679	37,472	42,942	<b>47,899</b>
Officers, Partners and Directors	6,405	6,841	7,461	7,723	<b>8,571</b>
<b>Total</b>	<b>36,864</b>	<b>40,520</b>	<b>44,933</b>	<b>50,665</b>	<b>56,470</b>
<b>Applications Processed</b>					
Applications Received During Year	23,054	22,246	25,242	27,961	<b>31,130</b>
Applications Completed During Year	23,047	21,679	24,388	28,670	<b>31,287</b>

# Statistical Summaries

Fiscal Year Ending March 31, 1999



Prospectuses Filed (Note 1)

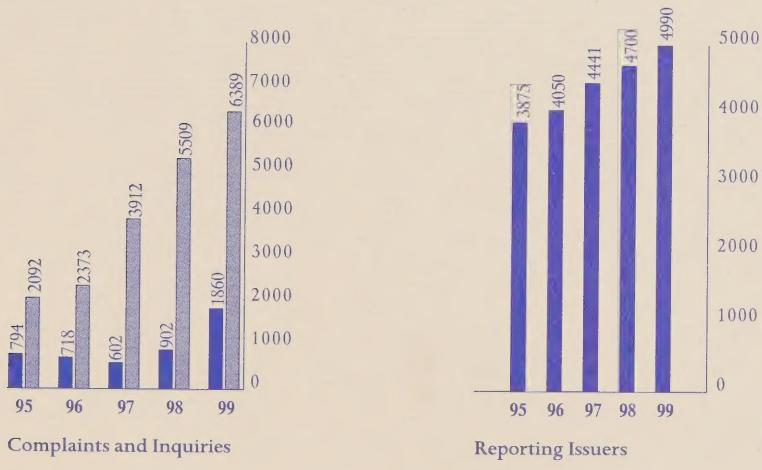
■ Issuers (Excluding Mutual Funds)

■ Mutual Funds (Note 2)

Hearings

■ Matters

■ Days



Complaints and Inquiries

■ Complaints

■ Inquiries

Reporting Issuers

## Notes:

1. It should be noted that this chart includes short form prospectuses and may include prospectuses which were withdrawn or for which the Director refused to issue a final receipt.
2. The number of mutual fund prospectuses filed does not represent the total number of mutual fund issuers as in most cases a prospectus qualifies more than one fund issuer.

"The ability of the OSC to respond successfully to the challenges of the market is due in large measure to the commitment and professionalism of its staff. Building on that foundation is a key priority for the Commission over the next year."

David Brown

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**Questions You Need to Ask**



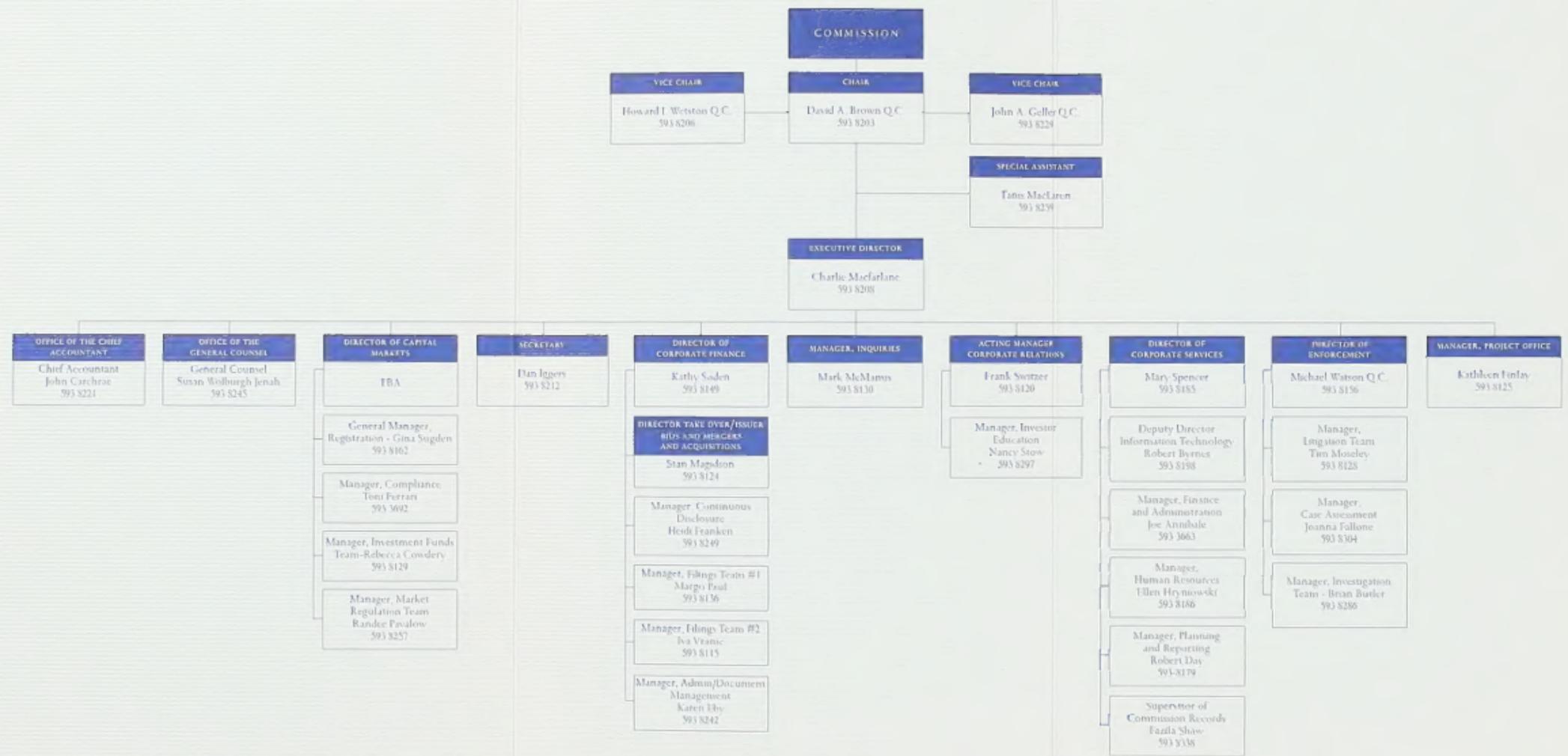
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Ontario Securities Commission

## executive and senior management staff

1999/2000





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